GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:947
ANSWERED ON:28.07.2000
VALUE ADDED TAX SYSTEM
RAGHUNANDAN LAL BHATIA

Will the Minister of FINANCE be pleased to state:

(a) whether Standing Finance Committee of the Union Government had issued a directive recently to the States regarding introduction of New Value Added Tax System (VAT);

(b) whether VAT is a better method of taxation;

(c) if so, the details thereof;

(d) whether this will make easy to nab the tax evaders; and

(e) if so, the detailed particulars thereof?

Answer

MINISTER IF STATE IN THE MINISTRY OF FINANCE (V. DHANANJAYA KUMAR)

(a): In the Conference of Chief Ministers/State Finance Ministersheld on 22.6.2000 it was decided by consensus that States which can implement VAT by 1.4.2001 may go ahead. For others, the Standing Committee of State Finance Ministers will prepare milestones and road map. The Standing Committee of State Finance Ministers which has beenconverted into Empowered Committee met on 21.7.2000 and endorsed this decision.

(b)&(c):VAT is a multi-stage levy, wherein tax is levied on value added at all stages of production and distribution process. Since the value added component is taxed only once, there is no cascading effect of the tax.

(d)&(e):VAT would help in the reduction of tax evasion, since the tax would not be concentrated at any one level. Also, it requires tax invoices to be issued, as subsequent dealers would need to maintain the invoices, in order to benefit from tax deduction. This would enable tax authorities to cross-check the declared transactions between the tax payers, consequently reducing the propensity to evade tax.